

PHILIPPINES ECONOMIC WRAP-UP

JUNE 16-22, 2001

Summary

Political jitters and a dearth of positive external and domestic news translated into weaker financial markets this week. The peso headed further down while stock prices softened on profit taking. Rates on 91-day T-bills declined further but rates on the longer maturities inched up. We also report on the latest fiscal numbers, which showed deepening internal revenue collection problems. Meanwhile, the latest import statistics (April) showed imports up year-on-year after successive declines through the first quarter. End summary.

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). We provide a longer and more detailed review of the Philippine economy in our June 2001 Economic Outlook, which is also available on our web site.

Contents

Forex Report
Credit Market Report
Stock Market Report
Fiscal Update
April Imports Up Year-on-Year

FOREX REPORT

The peso weakened at a faster clip during the week. A weaker yen exerted pressure on regional currencies, and combined with limited new foreign exchange inflows and escalating political and peace-and-order jitters to weigh

down the peso. The peso depreciated to a five-month intra-day low of P52.38/US\$ on June 19 (Tuesday) before temporarily recovering midweek, buoyed by steadier regional currencies and, according to senior officials from the Bangko Sentral ng Pilipinas (BSP, the central bank), by forex sales from overseas workers and exporters. Speculation that the BSP had stepped in to inject liquidity in the interbank market -- or was poised to do so -- also may have spurred profit-taking. The last few days of the week saw the foreign exchange rate weaken on renewed regional currency pressures and the dearth of positive domestic news. The peso ended the week at 52.210/US\$ (down 2.6% from its June 12 close of P50.910/US\$). (See Section II for detailed forex data.)

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
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MAY 14	Markets Closed		
15	50.321	50.180	131.1
16	50.136	50.140	127.5
17	50.162	50.260	111.1
18	50.342	50.330	132.5
MAY 21	50.609	50.840	148.3
22	50.789	50.645	124.2
23	50.438	50.300	184.0
24	50.287	50.340	168.0
25	50.449	50.505	106.5
MAY 28	50.774	50.770	160.5
29	50.703	50.500	120.4
30	50.584	50.565	177.5
31	50.495	50.500	162.6
JUN 01	50.750	50.633	150.0
JUN 04	50.800	50.765	103.5
05	50.645	50.590	121.7
06	50.643	50.720	143.0
07	50.762	50.710	85.2
08	50.803	50.910	128.1

JUN 11	51.079	51.190	181.0
12	Markets Closed		
13	51.326	51.310	191.0
14	51.309	51.360	105.6
15	51.479	51.590	122.4

JUN 18	51.819	51.975	141.5
19	52.282	52.320	109.5
20	52.071	52.010	233.8
21	52.101	52.200	122.5
22	52.281	52.210	74.5

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Rates for the benchmark 91-day bills softened for a sixth consecutive week at the government's June 18 T-bill auction. However, rates on the longer-term tenors inched up on foreign exchange uncertainties and peace-and-order worries. Rates for the benchmark 91-day T-bills shed 7.6 basis points to average 8.653% (the lowest since April 24, 2000). The 182-day bills increased by 8 basis points to 9.780%, breaking from four weeks of consecutive declines. Rates for the 364-day bills inched up a second straight week to average at 10.965% (up 14.2 basis points). Analysts generally expected T-bill rates to move sideways unless the Bangko Sentral ng Pilipinas (BSP, the central bank) cuts policy rates further. Meanwhile, the Monetary Board left policy rates unchanged (9.0% and 11.25% for overnight borrowing and lending rates, respectively) and noted that recent movements in the foreign exchange market bore closer watching. (See Section II for detailed data on interest rates.)

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
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MAY 15	9.513	10.915	11.350

MAY 21	9.306	10.750	11.352
MAY 28	9.037	10.087	11.307
JUN 04	8.913	9.839	10.792
JUN 11	8.729	9.700	10.823
JUN 18	8.653	9.780	10.965

Source: Bureau of the Treasury

Prime Lending Rates of 14 Expanded Commercial Banks

Date of Survey	Average	Range
MAY 10	13.4861	11.25 - 15.012
MAY 17	13.2171	10.75 - 14.513
MAY 24	13.1013	10.75 - 14.500
MAY 31	12.8919	10.25 - 14.037
JUN 07	12.7849	10.00 - 14.000
JUN 14	12.8122	10.00 - 14.000
JUN 21	12.7828	10.00 - 14.000

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

As traders had expected, profit taking capped sustained gains for the Philippine Stock Price Index (Phisix). The previous week's gains (spurred by bargain hunting) were short-lived, as weak economic prospects, foreign exchange uncertainties, and political jitters continued to cloud investor sentiment. The Philippine Stock Price Index (Phisix) ended June 18 at 1439.77, declining 2.7% from June 15's 1479.30 closing level. (See Section II for detailed stock market data.)

Philippine Stock Exchange Index (PHISIX) and Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
MAY 14	Markets Closed	
15	1457.97	497

16	1461.79	311
17	1453.03	376
18	1448.62	397
MAY 21	1446.20	363
22	1451.20	6939 /a
23	1446.20	726
24	1434.68	472
25	1410.23	1068
MAY 28	1395.12	412
29	1385.43	511
30	1396.50	399
31	1402.29	568
JUN 01	1416.09	669
JUN 04	1412.45	2394 /b
05	1392.71	597
06	1389.52	490
07	1406.65	405
08	1410.50	650
JUN 11	1435.77	682
12	Markets Closed	
13	1462.66	943
14	1474.11	799
15	1479.30	749
JUN 18	1470.92	393
19	1448.73	474
20	1449.45	415
21	1444.17	547
22	1439.77	1,093

a/ includes P6.57 billion block sale of Pure Foods to San Miguel Corporation

b/ about P2 billion accounted for by trading of blue-chip Philippine Long Distance Telephone Co. (PLDT) shares (reportedly on news of a debt restructuring plan forged with creditors by PLDT's struggling subsidiary Piltel)

Source: Philippine Stock Exchange

FISCAL UPDATE

The national government posted a P58.3 billion fiscal deficit for the first five months of the year, within the P61.8 billion ceiling programmed for the period. The government has kept a tight lid on expenditures (disbursing P9.7 billion less than programmed during the five-month period) to make up for lower-than-targeted revenues (P6.3 billion short).

Especially worrisome was a P11.1 billion shortfall in Bureau of Internal Revenue (BIR) collections -- which widened dramatically from the P6.5 billion shortfall posted from January-April. Department of Finance (DOF) officials cited slower-than-expected economic growth and continuing tax collection problems. They added that internal resistance and conflict since May within the BIR over a personnel revamp/reshuffle also may have adversely affected collection performance.

Budget and finance officials were, until recently, bent on keeping within the P145 billion deficit ceiling targeted for the full year. After the most recent numbers were released, they indicated in media interviews that revenue performance in the following months would determine whether the full year fiscal program (and deficit target) should be reviewed. Officials told the Embassy that the national government could find it increasingly difficult to sustain underspending at levels necessary to keep the deficit on track. They admitted that weak markets also could endanger the government's ability to privatize government assets (targeted to raise some P7 billion in nontax revenues for the year).

National Government Fiscal Performance
(Amounts in Billion Pesos)

	2001			
	Full Yr.	January	-May	
	Program	Prog.	Actual	Diff.
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REVENUES	568.2	236.0	229.7	(6.3)
BIR	408.1	178.2	167.1	(11.1)
Customs	105.1	38.7	38.0	(0.7)

Treasury	20.0	7.2	11.2	4.0
Other Offices	35.1	11.8	13.4	1.6
Privatization	7.0	0.0	0.5	0.5
Fees and Charges	21.2	9.0	10.2	1.2
EXPENDITURES	713.2	297.8	288.1	(9.7)
Interest Payments	182.6	71.8	69.2	(2.5)
SURPLUS/(DEFICIT)	(145.0)	(61.8)	(58.3)	3.4

Source: Bureau of Treasury

APRIL IMPORTS UP YEAR-ON-YEAR AFTER SUCCESSIVE DECLINES

The Philippines' merchandise import bill increased 6.5% in April after successive year-on-year declines through the first quarter. The month saw all major import categories (i.e., capital goods, intermediate/raw materials, mineral fuels/petroleum, and consumer goods) posting year-on-year expansions, led by raw materials and intermediate goods (which accounted for more than half of the year-on-year increase). Given weak economic prospects, the year-on-year import increase mainly suggests that inventories are running low, rather than improved business sentiment. With exports down 15.8% year-on-year in April (Manila 3300), the resulting trade balance was a \$447 million deficit for the month (the first since May 1999).

On a cumulative four-month basis, the import bill contracted by 4.2% year-on-year. That overall decline about matched the 4.1% year-on-year export drop for the same period (Manila 3300). The merchandise trade surplus amounted to \$845 million, 3% narrower than the four-month surplus the year before.

PHILIPPINE FOREIGN TRADE PERFORMANCE
(FOB Value in Million US\$)

	Exports	Imports	BOT
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Jan 2000	2,717	2,651	65
Feb	2,902	2,483	419

Mar	2,989	2,742	247
Apr	2,668	2,528	(140)
Jan-Apr 2000	11,275	10,404	871
Jan 2001	2,889	2,472	417
Feb	2,805	2,193	612
Mar	2,870	2,602	267
Apr	2,246	2,437	(447)
Jan-Apr 2001	10,810	9,965	845

Source: National Statistics Office